

**DENISON MUNICIPAL UTILITIES**

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2012

**MAHONEY & GOTTO COMPANY**

*Certified Public Accountants*

**Denison, Iowa**

# DENISON MUNICIPAL UTILITIES

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## **DENISON MUNICIPAL UTILITIES**

### **Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2012
Brad Nelson	Vice Chairman	2013
Nancy Bradley	Board Member	2016
Dane Dammen	Board Member	2014
Chad Langenfeld	Board Member	2015
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

# **MAHONEY & GOTTO COMPANY**

***Certified Public Accountants***

**201 South 7<sup>th</sup> Street  
Denison, IA 51442**

**Phone 712-263-6189  
Fax 712-263-2184**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Denison Municipal Utilities

We have audited the accompanying financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These basic financial statements are the responsibility of Denison Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of Denison Municipal Utilities are intended to present the respective financial position and results of operations and cash flows of proprietary fund types and the fiduciary fund of only that portion of the financial reporting entity of the City of Denison, Iowa, that is attributable to the transactions of the Denison Municipal Utilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, each major enterprise fund and the fiduciary fund of Denison Municipal Utilities, a component unit of the City of Denison, Iowa, as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2012 on our consideration of Denison Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 9 and 26 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the basic financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements. In accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 were audited by other auditors who expressed an unqualified opinion. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mahoney & Gotto Company*

MAHONEY & GOTTO COMPANY  
Certified Public Accountants

September 14, 2012  
Denison, Iowa

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*This section of Denison Municipal Utilities annual report presents an analysis of the Utilities financial performance for the fiscal year ended June 30, 2012. Denison Municipal Utilities is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment utility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. We encourage readers to consider the information presented here in conjunction with the utilities financial statements and notes to the basic financial statements in order to enhance their understanding of the utilities financial performance.*

### **2012 FINANCIAL HIGHLIGHTS**

- Total combined operating revenues increased \$98,233 or 0.69% from the prior year. Increased gallons of waste treated by the sewer and joint treatment facilities contributed to this increase.
- Interest income decreased \$48,710 or 42.7% from the prior year. This decrease is a direct result of the Federal Reserve Bank's low interest rate policy and the use of cash reserve funds for capital improvement projects.
- Operating expenses increased \$520,140 or 4.51% from the prior year. The cost of wholesale power has continued to increase causing operating expenses to rise. Additional costs were incurred due to the increased gallons of waste treated by the sewer and joint treatment facilities.
- Total assets increased \$652,149 and total liabilities decreased \$668,324, resulting in total net assets increasing \$1,320,473 or 3.72% from the prior year. Investments in capital assets increased \$4,632,729 funded by amounts set aside in cash reserve funds.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

### **REQUIRED FINANCIAL STATEMENTS**

Denison Municipal Utilities presents its proprietary funds financial statements using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The annual report consists of a series of financial statements and other information, as follows:

*Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the Utilities financial activities.

The *Statement of Net Assets* presents information on the Utilities assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets

may serve as a useful indicator of whether the financial position of each utility is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the success of the Utilities operations. It can be used to determine whether each utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utilities profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utilities cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utilities financed its activities and how it met its cash requirements.

*Notes to Financial Statements* provide additional information essential to a full understanding of the data provided in the basic financial statements.

*Required Supplementary Information* further explains and supports the financial statements with a comparison of the Utilities budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

## FINANCIAL ANALYSIS OF THE UTILITIES

The Statement of Net Assets includes all of the Utilities assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utilities.

The analysis below focuses on the net assets and changes in net assets of the Utilities.

<u>Condensed Statement of Net Assets</u>			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 12,024,308	\$ 14,604,169	\$ 14,367,861
Capital Assets	<u>30,059,625</u>	<u>26,827,615</u>	<u>25,303,088</u>
Total Assets	<u>42,083,933</u>	<u>41,431,784</u>	<u>39,670,949</u>
Long-term debt outstanding	2,926,000	3,434,191	4,030,968
Other liabilities	<u>2,334,157</u>	<u>2,494,290</u>	<u>2,018,611</u>
Total Liabilities	<u>5,260,157</u>	<u>5,928,481</u>	<u>6,049,579</u>
Invested in Capital Assets, net of related debt	27,253,008	22,770,294	20,711,477
Restricted net assets	716,000	776,067	1,171,572
Unrestricted net assets	<u>8,854,768</u>	<u>11,956,942</u>	<u>11,738,321</u>
Total net assets	\$ <u>36,823,776</u>	\$ <u>35,503,303</u>	\$ <u>33,621,370</u>



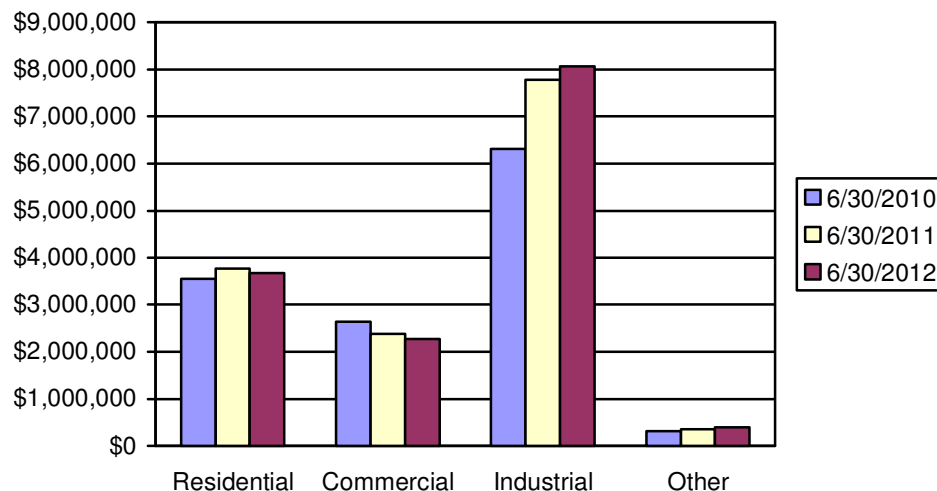
## 2012 OPERATING RESULTS

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets.

<u>Condensed Statements of Revenues, Expenses, and Changes in Net Assets</u>			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Program revenues			
Operating revenues	\$14,387,060	\$ 14,288,827	\$ 12,826,151
Miscellaneous	511,527	482,528	225,812
Unrestricted investment earnings	65,411	114,121	200,804
Total revenues	<u>14,963,998</u>	<u>14,885,476</u>	<u>13,252,767</u>
Program expenses			
Operating expenses	12,053,598	11,533,458	10,810,434
Depreciation	1,401,490	1,326,990	1,328,885
Interest on long-term debt	121,823	143,095	156,236
Payment in lieu of taxes	66,614	0	160,333
Total expenses	<u>13,643,525</u>	<u>13,003,543</u>	<u>12,455,888</u>
Increase (decrease) in net assets	1,320,473	1,881,933	796,879
Unrestricted Net assets July 1	35,503,303	33,621,370	32,824,491
Unrestricted Net assets June 30	<u>\$36,823,776</u>	<u>\$35,503,303</u>	<u>\$33,621,370</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2012, 2011 and 2010.

**Comparison of Total Operating Revenues**



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2012, 2011 and 2010:

<b>Comparison of Electric Meters &amp; Usage by Customer Class</b>						
	2012		2011		2010	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	619	18,670,720	628	19,023,247	636	23,063,268
Commercial C1M	16	416,715	19	779,771	16	2,576,431
Commercial C2M	0	0	0	0	0	4,399,600
Residential R1	2,434	31,683,204	2,439	30,350,038	2,435	17,269,284
Residential R2M	254	4,500,368	257	4,884,164	253	16,606,368
Industrial	61	97,117,347	52	91,338,647	43	77,125,050
Water plant		3,352,184		3,058,031		2,941,370
Sewer plant		6,921,629		5,815,992		4,266,982
City Government		2,827,847		2,763,204		2,873,190
Other DMU uses		<u>565,351</u>		<u>582,894</u>		<u>597,480</u>
<b>Total Meters &amp; KWH Billed</b>	<u><b>3,384</b></u>	<u><b>166,055,365</b></u>	<u><b>3,395</b></u>	<u><b>158,595,988</b></u>	<u><b>3,383</b></u>	<u><b>151,719,023</b></u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2012, 2011 and 2010 is as follows:

<b>Comparison of Water Meters &amp; Usage by Customer Class</b>						
	2012		2011		2010	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,255	134,883,000	2,244	116,905,000	2,256	119,503,000
Commercial	394	110,361,000	398	90,357,000	391	87,129,000
West Central Rural Water	4	216,700,000	4	194,039,000	4	183,453,000
Residential Outside City	129	13,863,000	130	11,329,000	131	11,583,000
Commercial Outside City	19	29,234,000	18	27,754,000	16	27,732,000
Industrial	9	392,298,000	8	413,894,000	8	396,904,000
Electric Department		1,040,000		1,158,000		459,000
Sewer plant		2,047,000		1,816,000		2,039,000
City Government		<u>4,665,000</u>		<u>3,655,000</u>		<u>5,037,000</u>
<b>Total Meters &amp; Gals. Billed</b>	<u><b>2,810</b></u>	<u><b>905,091,000</b></u>	<u><b>2,802</b></u>	<u><b>860,907,000</b></u>	<u><b>2,806</b></u>	<u><b>833,839,000</b></u>

## ANALYSIS BY FUND

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2012 with a net asset balance of \$14,436,678 compared to the prior year ending net asset balance of \$14,329,021, an increase of 0.75%. An increase in amounts invested in capital assets with cash reserve funds contributed to the increase.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2012 with a \$11,397,979 net asset balance compared to the prior year ending net asset balance of \$11,069,014, an increase of 2.97%. An increase in capital assets and a decrease in the related debt contributed to the increase in net assets.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2012 with a net asset balance of \$3,827,128 compared to \$3,604,033 for the previous fiscal year, an increase of 6.19%. An increase in amounts invested in capital assets and a decrease in current liabilities contributed to the increase in net assets along with increases in gallons of wastewater processed.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2012 with a net asset balance of \$7,161,991 compared to the prior year ending net asset balance of \$6,501,235, an increase of 10.16%. An increase in the strength of waste treated offset by a slight increase in wastewater processing costs contributed to the increase in net assets. An increase in amounts invested in capital assets and a decrease in current liabilities also contributed to the increase in the net asset balance.

## **CAPITAL ASSETS**

The Utilities capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$4,633,500 was invested in new capital assets, after accounting for depreciation, there was an increase of \$3,232,010 in Capital Assets from June 30, 2011.

## **LONG-TERM DEBT**

As of June 30, 2012, the Utilities had \$3.329 million in outstanding debt compared to \$4.082 million as of June 30, 2011. The decrease represents principal payments made during the fiscal year ended June 30, 2012 along with a portion of the debt related to the water meter replacement project being forgiven as all ARRA requirements were met under the debt agreement. The outstanding debt of the Water Utility consists entirely of revenue bonds, which are secured by future water revenues.

Additional information on the Utilities long-term debt is provided in Note 5 of the financial statements.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget was amended during the fiscal year due to capital project delays and expenditures. The amended budget was not exceeded.

The Utilities receipts were \$393,324 more than budgeted. Receipts in the Sewer Utility and Joint Treatment Utility were more than anticipated due to increased gallons of waste treated and also due to the strength of the waste discharged.

Total expenditures were \$275,406 less than budgeted. Delays in capital projects in each utility contributed to this variance.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Various economic factors were considered when establishing the Utilities budget for fiscal 2012. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2013, the Utilities will review all rate

structures to determine if any rate changes will be needed. Planned capital additions will be financed through cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

## COMMUNITY BENEFITS PROVIDED

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
KWH Billed	166,055,365	158,595,988	151,719,023
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0153</u>	<u>0.0165</u>	<u>0.0181</u>
(1) Calculated total electric savings	\$ 2,540,647	\$ 2,616,834	\$ 2,746,114
(2) Transfer to City general fund in lieu of taxes	342,200	283,386	300,094
(3) New housing assistance program	0	0	6,003
(4) Water heater rebates	<u>7,520</u>	<u>7,480</u>	<u>7,385</u>
Total Community Benefits	<u>\$ 2,890,367</u>	<u>\$ 2,907,700</u>	<u>\$ 3,059,596</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to support local housing projects by reimbursing 90% of costs associated with installing electric, water, and sewer connections from main lines to the house or duplex; however, the reimbursement amount is not to exceed \$2,000 per structure. In the case of multi-family dwellings, in excess of two units, the reimbursement amount is not to exceed \$500 per dwelling unit.
- (4) Denison Municipal Utilities has agreed to support an energy efficient water heater rebate program. All participants in the water heater rebate program are required to be on the load management system.

## ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utilities rate payers, creditors and other interested parties with a general overview of the Utilities financial operations and financial condition. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Denison Municipal Utilities' Manager of Finance and Customer Information at PO Box 518, Denison, IA 51442.

## **Basic Financial Statements**

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2012 and 2011**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2012	2011
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Plant in Service, at cost	\$ 57,185,586	\$ 52,552,857
Less: Accumulated depreciation	27,125,961	25,725,242
Net Utility Plant	<u>\$ 30,059,625</u>	<u>\$ 26,827,615</u>
<b>OTHER ASSETS</b>		
Restricted		
Revenue bond reserve	\$ 726,419	\$ 793,279
Loan origination fee, net of accumulated amortization	22,383	24,870
Unrestricted		
Note receivable	375,000	500,000
Equipment replacement investment	1,005,512	851,946
	<u>\$ 2,129,314</u>	<u>\$ 2,170,095</u>
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 73,211	\$ 70,611
Unrestricted		
Cash	3,348,996	2,841,697
Deposits and investments	4,341,382	6,985,030
Accounts receivable	25,416	909,267
Unbilled usage	1,178,927	704,390
Due from other funds	30,452	35,202
Interest receivable	17,063	20,366
Grant funds receivable	39,401	0
Inventory	586,471	619,138
Prepaid insurance	128,675	123,373
Note receivable	125,000	125,000
Total Current Assets	<u>\$ 9,894,994</u>	<u>\$ 12,434,074</u>
Total Assets	<u><u>\$ 42,083,933</u></u>	<u><u>\$ 41,431,784</u></u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2012 and 2011**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2012	2011
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 27,253,008	\$ 22,770,294
Restricted net assets	716,000	776,067
Unrestricted net assets	8,854,768	11,956,942
Total Net Assets	<u>\$ 36,823,776</u>	<u>\$ 35,503,303</u>
LONG-TERM DEBT		
Net of current maturities	<u>\$ 2,926,000</u>	<u>\$ 3,434,191</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,349,106	\$ 1,341,552
Due to other funds	30,452	35,202
Accrued vacation and sick leave	346,661	332,061
Other accrued liabilities	111,308	37,152
Payable from restricted assets		
Current maturities of long-term debt	403,000	648,000
Interest payable	24,145	30,033
Consumers' deposits	69,485	70,290
Total Current Liabilities	<u>\$ 2,334,157</u>	<u>\$ 2,494,290</u>
Total Liabilities and Net Assets	<u><u>\$ 42,083,933</u></u>	<u><u>\$ 41,431,784</u></u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2012 and 2011**

**Exhibit B**

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2012</u>	<u>Total 2011</u>
<b>ASSETS</b>						
<b>UTILITY PLANT</b>						
Plant in Service, at cost	\$ 20,202,296	21,117,164	6,309,319	9,556,807	57,185,586	52,552,857
Less: Accumulated depreciation	11,401,799	9,304,611	2,902,844	3,516,707	27,125,961	25,725,242
Net Utility Plant	<u>\$ 8,800,497</u>	<u>11,812,553</u>	<u>3,406,475</u>	<u>6,040,100</u>	<u>30,059,625</u>	<u>26,827,615</u>
<b>OTHER ASSETS</b>						
Restricted						
Revenue bond reserve	\$ 0	726,419	0	0	726,419	793,279
Loan origination fee, net of accumulated amortization	0	22,383	0	0	22,383	24,870
Unrestricted						
Note receivable - Joint Treatment Utility	375,000	0	0	0	375,000	500,000
Equipment replacement investment	0	0	0	1,005,512	1,005,512	851,946
Total Other Assets	<u>\$ 375,000</u>	<u>748,802</u>	<u>0</u>	<u>1,005,512</u>	<u>2,129,314</u>	<u>2,170,095</u>
<b>CURRENT ASSETS</b>						
Restricted						
Consumers' deposit fund	\$ 73,211	0	0	0	73,211	70,611
Unrestricted						
Cash	2,056,832	726,330	62,133	503,701	3,348,996	2,841,697
Deposits and investments	3,184,563	740,124	416,695	0	4,341,382	6,985,030
Accounts receivable	(53,417)	35,790	43,043	0	25,416	909,267
Unbilled usage	724,296	215,058	99,548	140,025	1,178,927	704,390
Due from other funds	5,437	10,259	13,739	1,017	30,452	35,202
Interest receivable	14,144	2,919	0	0	17,063	20,366
Grant funds receivable	39,401	0	0	0	39,401	0
Inventory	488,333	98,138	0	0	586,471	619,138
Prepaid insurance	50,432	46,572	11,450	20,221	128,675	123,373
Note receivable - Joint Treatment Utility	125,000	0	0	0	125,000	125,000
Total Current Assets	<u>\$ 6,708,232</u>	<u>1,875,190</u>	<u>646,608</u>	<u>664,964</u>	<u>9,894,994</u>	<u>12,434,074</u>
Total Assets	<u>\$ 15,883,729</u>	<u>14,436,545</u>	<u>4,053,083</u>	<u>7,710,576</u>	<u>42,083,933</u>	<u>41,431,784</u>

See notes to financial statements.



**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2012 and 2011**

**Exhibit B**

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2012</u>	<u>Total 2011</u>
LIABILITIES AND NET ASSETS						
NET ASSETS						
Invested in Capital Assets, net of related debt	\$ 8,800,497	9,005,936	3,406,475	6,040,100	27,253,008	22,770,294
Restricted net assets	3,726	712,274	0	0	716,000	776,067
Unrestricted net assets	5,632,455	1,679,769	420,653	1,121,891	8,854,768	11,956,942
Total Net Assets	<u>\$ 14,436,678</u>	<u>11,397,979</u>	<u>3,827,128</u>	<u>7,161,991</u>	<u>36,823,776</u>	<u>35,503,303</u>
LONG-TERM DEBT -						
Net of current maturities	\$ <u>0</u>	<u>2,551,000</u>	<u>0</u>	<u>375,000</u>	<u>2,926,000</u>	<u>3,434,191</u>
CURRENT LIABILITIES						
Accounts payable	\$ 1,105,871	77,315	141,412	24,508	1,349,106	1,341,552
Due to other funds	22,470	3,318	3,447	1,217	30,452	35,202
Accrued vacation and sick leave	199,595	82,056	65,010	0	346,661	332,061
Other accrued liabilities	49,630	32,732	16,086	12,860	111,308	37,152
Payable from restricted assets						
Current maturities of long-term debt	0	278,000	0	125,000	403,000	648,000
Interest payable	0	14,145	0	10,000	24,145	30,033
Consumers' deposits	69,485	0	0	0	69,485	70,290
Total Current Liabilities	<u>\$ 1,447,051</u>	<u>487,566</u>	<u>225,955</u>	<u>173,585</u>	<u>2,334,157</u>	<u>2,494,290</u>
Total Liabilities and Net Assets	<u>\$ 15,883,729</u>	<u>14,436,545</u>	<u>4,053,083</u>	<u>7,710,576</u>	<u>42,083,933</u>	<u>41,431,784</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2012 and 2011**

**Exhibit C**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2012	Total 2011
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 8,963,736	2,363,119	1,207,278	1,816,842	14,350,975	14,253,648
Other operating revenues	36,085	0	0	0	36,085	35,179
Total operating revenues	<u>\$ 8,999,821</u>	<u>2,363,119</u>	<u>1,207,278</u>	<u>1,816,842</u>	<u>14,387,060</u>	<u>14,288,827</u>
<b>OPERATING EXPENSES</b>						
Cost of Power	\$ 7,291,856	0	0	0	7,291,856	7,233,038
Administrative & general	321,145	128,283	116,027	100,065	665,520	675,584
Transportation	45,492	13,888	14,014	12,031	85,425	75,209
Property, liability & work comp Insurance	59,852	58,278	13,916	24,151	156,197	144,739
Payroll tax expense	113,909	76,618	38,750	37,812	267,089	235,503
Employee insurance	165,363	104,511	43,548	48,957	362,379	336,116
Waste water processing expense	0	0	0	744,944	744,944	635,944
Joint treatment costs	0	0	266,542	0	266,542	286,428
Repair & maintenance	83,166	0	145,176	0	228,342	203,663
Power & pumping	0	239,209	22,542	0	261,751	213,466
Transmission & distribution	522,013	212,507	172,147	0	906,667	796,283
Purification	0	574,736	0	0	574,736	470,154
Consumer accounting & collection	100,435	78,911	62,804	0	242,150	227,331
Total operating expenses excluding depreciation	<u>\$ 8,703,231</u>	<u>1,486,941</u>	<u>895,466</u>	<u>967,960</u>	<u>12,053,598</u>	<u>11,533,458</u>
<b>OPERATING INCOME BEFORE DEPRECIATION</b>	<b>\$ 296,590</b>	<b>876,178</b>	<b>311,812</b>	<b>848,882</b>	<b>2,333,462</b>	<b>2,755,369</b>
<b>DEPRECIATION</b>	<u>518,054</u>	<u>603,687</u>	<u>95,191</u>	<u>184,558</u>	<u>1,401,490</u>	<u>1,326,990</u>
<b>OPERATING INCOME</b>	<b>\$ (221,464)</b>	<b>272,491</b>	<b>216,621</b>	<b>664,324</b>	<b>931,972</b>	<b>1,428,379</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Miscellaneous	\$ 309,656	144,295	3,988	14,187	472,126	338,008
Hazard Mitigation grant	39,401	0	0	0	39,401	145,144
Interest income	46,678	11,502	2,486	4,745	65,411	114,121
Interest expense	0	(99,323)	0	(22,500)	(121,823)	(143,095)
Loss on the sale of property and equipment	0	0	0	0	0	(624)
Payment in lieu of taxes	(66,614)	0	0	0	(66,614)	0
Total nonoperating revenues (expenses)	<u>\$ 329,121</u>	<u>56,474</u>	<u>6,474</u>	<u>(3,568)</u>	<u>388,501</u>	<u>453,554</u>
<b>NET INCOME (LOSS)</b>	<b>\$ 107,657</b>	<b>328,965</b>	<b>223,095</b>	<b>660,756</b>	<b>1,320,473</b>	<b>1,881,933</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>14,329,021</u>	<u>11,069,014</u>	<u>3,604,033</u>	<u>6,501,235</u>	<u>35,503,303</u>	<u>33,621,370</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 14,436,678</u></u>	<u><u>11,397,979</u></u>	<u><u>3,827,128</u></u>	<u><u>7,161,991</u></u>	<u><u>36,823,776</u></u>	<u><u>35,503,303</u></u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2012 and 2011**

**Exhibit D**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2012	Total 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)	\$ 107,657	328,965	223,095	660,756	1,320,473	1,881,933
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	518,054	603,687	95,191	184,558	1,401,490	1,326,990
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Loss on the sale of property and equipment	0	0	0	0	0	624
ARRA Loan Forgiven	0	(107,000)	0	0	(107,000)	0
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	(2,600)	0	0	0	(2,600)	5,295
(Increase) decrease in trade receivables	528,393	144,673	75,018	135,767	883,851	(2,329)
(Increase) decrease in unbilled usage	(220,935)	(93,645)	(19,932)	(140,025)	(474,537)	(25,643)
(Increase) decrease in grant funds receivable	(39,401)	0	0	0	(39,401)	0
(Increase) decrease in inventories	24,831	7,836	0	0	32,667	237,088
(Increase) decrease in prepaid expenses	(3,065)	(304)	(700)	(1,233)	(5,302)	(13,295)
(Increase) decrease in other current assets	3,161	(3,192)	8,277	(193)	8,053	(1,311)
Increase (decrease) in accounts payable and accrued liabilities	312,107	(233,680)	138,706	(131,461)	85,672	419,590
Increase (decrease) in customer deposits	(805)	0	0	0	(805)	(3,910)
Net cash provided by (used in) operating activities	<u>1,227,397</u>	<u>649,827</u>	<u>519,655</u>	<u>708,169</u>	<u>3,105,048</u>	<u>3,827,519</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale/maturities of securities	3,286,939	3,492,309	852,231	0	7,631,479	7,325,667
Purchase of investment securities	(2,884,314)	(1,793,006)	(243,651)	(153,566)	(5,074,537)	(6,840,467)
Purchase of property and equipment	(997,558)	(1,787,599)	(1,137,785)	(710,558)	(4,633,500)	(2,853,117)
Proceeds from the sale of property and equipment	0	0	-	0	0	976
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	<u>(469,933)</u>	<u>(88,296)</u>	<u>(529,205)</u>	<u>(864,124)</u>	<u>(1,951,558)</u>	<u>(2,241,941)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from long-term borrowing	0	809	0	0	809	51,223
Principal payments on long-term borrowings	0	(522,000)	0	(125,000)	(647,000)	(588,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(521,191)</u>	<u>0</u>	<u>(125,000)</u>	<u>(646,191)</u>	<u>(536,777)</u>
Net increase (decrease) in cash and cash equivalents	757,464	40,340	(9,550)	(280,955)	507,299	1,048,801
Cash and cash equivalents:						
Beginning	1,299,368	685,990	71,683	784,656	2,841,697	1,792,896
Ending	<u>\$ 2,056,832</u>	<u>726,330</u>	<u>62,133</u>	<u>503,701</u>	<u>3,348,996</u>	<u>2,841,697</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**June 30, 2012 and 2011**

**Exhibit E**

	<u>2012</u>	<u>2011</u>
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 268,194	\$ 279,574
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>268,194</u></u>	\$ <u><u>279,574</u></u>
LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>268,194</u>	\$ <u>279,574</u>
Total Current Liabilities	\$ <u>268,194</u>	\$ <u>279,574</u>
Total Liabilities and Net Assets	\$ <u><u>268,194</u></u>	\$ <u><u>279,574</u></u>

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DENISON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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**Note 1 – Summary of Significant Accounting Policies**

The Denison Municipal Utilities (the Utilities) is governed by a Board of Trustees that are appointed by the Mayor of Denison, Iowa and approved by the City Council. Services provided are electric, water, sewer and joint treatment for industrial wastes. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the utilities are described below:

***Reporting entity***

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations and (5) accountability for fiscal matters.

In accordance with these criteria the Denison Municipal Utilities has been identified as a component unit of the City of Denison, Iowa, due primarily to the fact that the City of Denison selects the Board of Trustees.

***Basis of Presentation***

The accounts of Denison Municipal Utilities are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

The Statement of Net Assets displays the Utilities assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### ***Measurement Focus and Basis of Accounting***

The proprietary funds financial statements are reported using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

GASB pronouncements and non-conflicting pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 are applied in the preparation of the accompanying financial statements. Management does not apply FASB pronouncements issued after November 30, 1989.

Denison Municipal Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denison Municipal Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### ***Assets, Liabilities and Net Assets***

The following accounting policies are followed in preparing the Statement of Net Assets:

***Cash, Investments and Cash Equivalents*** - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2012. Investments consist of non-negotiable certificates of deposit which are stated at cost.

***Restricted Assets*** - Funds set aside for payment of customer deposits are classified as restricted. Also, funds set aside for payment of bond principal and interest are classified as restricted. Funds classified as restricted are not available to pay expenses other than those expenses for which the fund is restricted in accordance with the Utilities policy. The amount and purpose of the restricted net assets are as follows:

<b>Restricted For</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Debt Service	\$ 712,274	\$ 775,746	\$1,169,866
Consumer Deposits	3,726	321	1,706

***Receivables, Unbilled Usage and Credit Policies*** - Accounts receivable are uncollateralized customer obligations due under normal terms requiring payment twenty days after the billing date. Unpaid accounts receivable are considered delinquent and are assessed a penalty. Payments of accounts receivable are allocated to the specific bills identified by the customer, or if unspecified, are applied to the earliest unpaid bill.

Accounts receivable are stated at the amount billed to the customer plus any unpaid penalties and are recorded in the period the service is billed. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

***Inventories*** - Materials and supplies inventory are held for consumption and are valued at average cost.

***Utility Plant*** - The electric plant was estimated at replacement cost at August 31, 1969 and the Water Utility fixed assets were valued by utility employees at March 31, 1951. The employees used estimated historical costs because original historical cost was not available and the difference between such amounts was believed to be immaterial. All subsequent additions are valued at historical cost. Where additions are made by Utilities personnel, the direct cost of materials and labor are capitalized.

Major costs for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2012.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

Plant	20-40 years
Distribution & Collection	15-40 years
Machinery & Equipment	5-10 years
General Buildings	30-40 years
Transportation Equipment	5-10 years

***Compensated Absences*** - The Utilities allows employees to accumulate a maximum of 25 working days of vacation leave. An employee may carry forward a maximum of ten days of each year's earned vacation. Any vacation leave in excess of these two limits will be lost. Upon separation from the Utilities, unused vacation leave will be paid to the employee.

The Utilities also allows employees to accumulate up to a total of 60 working days of sick leave. If sick leave is not used during the year, a minimum of six days of unused sick leave must be carried forward. Employees may elect to take pay for unused sick leave in excess of the six days which must be carried forward to the maximum accumulation of 60 days. At such time as 60 days of sick leave have been accumulated, an employee may elect to take pay for all unused sick leave in a year. Pay shall be granted to an employee for unused sick leave upon separation from the Utilities.

***Long-Term Obligations*** - Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as origination fee, are deferred and amortized over the life of the respective debt.

***Designated Net Assets*** - The Board of Trustees has designated certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net assets, are designated as emergency funds and shall only be expended for that purpose. The cash reserve funds are not to be used to pay for ongoing operating expenditures or capital improvements unless approved by the Board. The Board has also designated certain funds to be placed in an Economic Development Savings Account to be used for future economic development within the City of Denison.

## ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

## ***Budgets and Budgetary Accounting***

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for Electric, Water, Sewer and Joint Treatment. The budget of the Utilities is submitted following required public notice and hearing.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted as amended.

## **Note 2 – Deposits and Investments**

The Utilities deposits, in banks, at June 30, 2012 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Utilities or the Utilities' agent in the Utilities name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper, perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.



### Note 3 – Utility Plant

Capital asset activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,086,792	\$ 0	\$ 0	\$ 1,086,792
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,298,945</u>	<u>0</u>	<u>0</u>	<u>1,298,945</u>
Plant	17,101,468	2,490,562	0	19,592,030
Distribution & Collection	21,542,293	1,331,873	0	22,874,166
Machinery & Equipment	858,660	100,507	771	958,396
General Buildings	2,132,268	0	0	2,132,268
Transportation Equipment	1,222,535	0	0	1,222,535
Joint Treatment Facility	<u>8,396,688</u>	<u>710,558</u>	<u>0</u>	<u>9,107,246</u>
Depreciable Capital Assets	51,253,912	4,633,500	771	55,886,641
Less Accumulated Depreciation	<u>25,725,242</u>	<u>1,401,490</u>	<u>771</u>	<u>27,125,961</u>
Depreciable Capital Assets-Net	<u>25,528,670</u>	<u>3,232,010</u>	<u>0</u>	<u>28,760,680</u>
Net Capital Assets	<u>\$26,827,615</u>	<u>\$ 3,232,010</u>	<u>\$ 0</u>	<u>\$30,059,625</u>

Depreciation charged to operations for the years ended June 30, 2012, 2011, and 2010 was \$1,401,490, \$1,326,990, and \$1,328,885 respectively. Construction in progress included in the above amounts is \$1,737,852, \$1,970,464, and \$270,958 for June 30, 2012, 2011, and 2010 respectively. No depreciation was taken on the construction in progress amounts.

### Note 4 – Loan Origination Fee

The original cost of the loan origination fee for the Water Revenue Capital Loan – Series 2001 was \$48,080, which was incurred in March 2002 and is being amortized over the remaining life of the loan.

### Note 5 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2012:

	Series 2001 Water Revenue Capital Loan Note	Series 2007 Water Revenue Refunding Capital Loan Notes	Series 2011 Water Revenue Capital Loan Note	Total Debt Payable
Balance July 1, 2011	2,758,000	245,000	454,191	3,457,191
Issued	0	0	809	809
Forgiven	0	0	(107,000)	(107,000)
Redeemed	<u>(240,000)</u>	<u>(245,000)</u>	<u>(37,000)</u>	<u>(522,000)</u>
Balance June 30, 2012	2,518,000	0	311,000	2,829,000
Less: current portion	<u>(248,000)</u>	<u>0</u>	<u>(30,000)</u>	<u>(278,000)</u>
Long-term debt, net of current portion	<u>2,270,000</u>	<u>0</u>	<u>281,000</u>	<u>2,551,000</u>

Annual debt service requirements to maturity for water revenue notes are as follows:

Year Ending June 30	Series 2001			Series 2010		
	Principal	Interest	Service Fees	Principal	Interest	Service Fees
2013	\$ 248,000	75,540	6,295	\$ 30,000	9,331	778
2014	255,000	68,100	5,675	31,000	8,430	702
2015	263,000	60,450	5,038	32,000	7,500	625
2016	271,000	52,560	4,380	33,000	6,540	545
2017	279,000	44,430	3,703	35,000	5,550	463
2018	287,000	36,060	3,005	36,000	4,500	375
2019	296,000	27,450	2,287	37,000	3,420	285
2020	305,000	18,570	1,547	38,000	2,310	193
2021	314,000	9,420	785	39,000	1,170	97
	<u>\$ 2,518,000</u>	<u>392,580</u>	<u>32,715</u>	<u>\$ 311,000</u>	<u>48,751</u>	<u>4,063</u>

A total of \$455,000 of the total funds available under the Series 2010 Water Revenue Capital Loan Note was advanced for the water meter conversion project. Of this amount \$107,000 was a forgivable loan pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). All the requirements of ARRA were met and this portion of the loan was forgiven. The portion of the loan that was forgiven was recognized as non-operating revenue during the year ended June 30, 2012.

The Utilities has pledged future water utility revenue, net of specified operating expenses, to repay outstanding water revenue bonds. The bonds are payable solely from the water utility's net revenues. Revenue bond provisions include requirements to make sufficient monthly transfers to Water sinking fund accounts for the purpose of paying bond principal and interest when due. These requirements have been met.

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the long-term liability activity for the fiscal year ended June 30, 2012:

	Notes Payable
Balance July 1, 2011	\$ 625,000
Redeemed	<u>(125,000)</u>
Balance June 30, 2012	500,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	<u>\$ 375,000</u>

Annual debt service requirements to maturity for the inter-fund loan are as follows:

Year Ending June 30,	Principal	Interest
2013	125,000	20,000
2014	125,000	15,000
2015	125,000	10,000
2016	125,000	5,000
	<u>\$ 500,000</u>	<u>50,000</u>

## Note 6 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS

provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Utilities is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$123,430, \$104,388, and \$95,436 respectively, equal to the required contributions for the year.

The Utilities sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utilities will contribute up to \$50 per month for all employees contributing at least \$50 per month of their salary. The Utilities' contribution for the year ended June 30, 2012, 2011 and 2010 was \$14,625, \$14,900 and \$14,000 respectively.

### **Note 7 – Major Customers**

A significant portion of the Electric Utility and Water Utility revenue is derived from a single customer. This customer accounted for approximately 30% of the Electric Utility usage and 39% of the Water Utility usage for the year ended June 30, 2012.

### **Note 8 – Concentrations**

Denison Municipal Utilities provides utility services to residential, commercial, and industrial customers in a specified service area in and around the City of Denison, Iowa. Credit is granted to substantially all customers, all of whom are local businesses and residents. All new customers of the Utilities are required to pay a deposit to start service unless the customer provides a credit reference from a previous utility company. The deposit is applied to the customer's utility account after seven months of timely payments or refunded to a customer if a deposit remains when they move out of the Utilities service area. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

### **Note 9 – Post-employment Benefits (OPEB)**

*Plan Description* - In addition to the pension benefits described in Note 6, the Utilities provides health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utilities group health insurance plan, which covers both active and retired members. The benefits are 100% of premium costs for employees retiring with thirty years of employment, 75% for employees with twenty-five years of employment and 50% for employees with twenty years of employment. Benefits terminate once a retired employee qualifies for Medicare. Benefit provisions are established by the Board of Trustees.

*Funding Policy* – The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The Utilities incurred \$12,733 for retiree health premiums and \$11,318 of self-funding costs during the current fiscal year as a result of this program.

*Annual OPEB Cost and Net OPEB Obligation* - The Utilities annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utilities. Denison Municipal Utilities has elected to calculate the ARC and related information using the alternative measurement method permitted by the

Government Accounting Standards Board for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utilities annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the Utilities net OPEB obligation:

Annual required contribution	\$ 23,864
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	23,864
Contributions made	<u>(12,733)</u>
Increase in net OPEB obligation	11,131
Net OPEB obligation beginning of year	<u>12,476</u>
Net OPEB obligation end of year	<u>\$ 23,607</u>

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
6/30/12	\$ 23,864	53.4%	\$ 23,607

*Funded Status and Funding Progress* - As of June 30, 2012, the actuarial accrued liability for benefits was \$280,831, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,510,275, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18.6%. As of June 30, 2012 there were no trust fund assets.

*Actuarial Methods and Assumptions* - The actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the Utilities and plan members and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Utilities and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

## **Note 10 – Construction and Other Commitments**

The Utilities has entered into a construction contract totaling \$2,957,296 for the purchase and installation of a lime sludge dewatering press at the water treatment plant. Change orders in the amount of \$12,371 have been approved for the project. At June 30, 2012, \$2,767,251 had been paid under the construction contract.

The Utilities has entered into a construction contract totaling \$1,733,000 for the installation of a sanitary sewer main and replacement of the screening and grit removal system. Change orders in the amount of \$86,914 have been approved for the project. As of June 30, 2012, \$1,718,938 had been paid under the construction contract.

The Utilities has entered into a construction contract totaling \$110,830 for sanitary sewer pump station modifications. At June 30, 2012, \$105,289 had been paid under the construction contract.

On September 15, 2009, project participation was approved with FEMA to convert a portion of the electric distribution system from overhead to underground. The total cost of the project was \$232,226 and was completed during the fiscal year ended June 30, 2012. As of June 30, 2012, \$39,401 was recorded as a receivable for the remaining portion to be reimbursed by FEMA.

On September 12, 1997, the Utilities entered into a contract, for a period of 40 years, for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). In April of 1999, WCIRW and the Utilities entered into an amended contract (first amendment) that arrives at the respective capital contribution of water production capital expenditures. The amendment contemplates WCIRW paying for 1.5 million gallons per day maximum plant capacity. In accordance with the contract, WCIRW has contributed capital in the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW. WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

The WCIRW contract also provides that Denison Municipal Utilities shall retain ownership of its line, appurtenances, altitude valves, other valves and meters up to and including the meter within the present corporate limits of the City of Denison. Denison Municipal Utilities may purchase portions of WCIRW's system if the city limits of Denison are expanded.

## **Note 11 – Risk Management**

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **Note 12 – Subsequent Events**

Management has evaluated subsequent events through September 14, 2012, the date on which the financial statements were available to be issued.

## **Required Supplementary Information**

DENISON MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2012

	<u>Per Financial Statements</u>	<u>Accrual Adjustments</u>	<u>Budget Adjustments</u>	<u>Cash Basis</u>	<u>Amended Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue/Receipts						
Charges for services	\$ 14,387,060	409,315	0	14,796,375	14,552,200	244,175
Interest income	65,411	3,303	0	68,714	59,700	9,014
Miscellaneous	<u>511,527</u>	<u>(39,401)</u>	<u>125,809</u>	<u>597,935</u>	<u>511,800</u>	<u>86,135</u>
Total Revenue/Receipts	14,963,998	373,217	125,809	15,463,024	15,123,700	339,324
Expenses/Expenditures						
Operating expenses	12,053,598	(89,729)	0	11,963,869	11,810,600	(153,269)
Interest expense & Payment in lieu of taxes	188,437	5,888	0	194,325	190,500	(3,825)
Debt payments	0	0	647,000	647,000	610,000	(37,000)
Depreciation & capital expenditures	<u>1,401,490</u>	<u>0</u>	<u>3,232,010</u>	<u>4,633,500</u>	<u>5,103,000</u>	<u>469,500</u>
Total Expenses/Expenditures	13,643,525	(83,841)	3,879,010	17,438,694	17,714,100	275,406
Net	1,320,473	457,058	(3,753,201)	(1,975,670)	<u>(2,590,400)</u>	<u>614,730</u>
Beginning Net Assets	<u>35,503,303</u>	<u>(19,736,023)</u>	<u>(3,164,535)</u>	<u>12,602,745</u>		
Ending Net Assets	\$ <u>36,823,776</u>	<u>(19,278,965)</u>	<u>(6,917,736)</u>	<u>10,627,075</u>		

This budgetary comparison is presented as Required Supplementary Information in accordance with governmental generally accepted accounting principles. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget was amended during the year utilizing similar statutorily prescribed procedures. The budget, as amended, was not exceeded.

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DENISON MUNICIPAL UTILITIES  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

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Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%
2011	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,533,107	9.5%
2012	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,510,275	18.59%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.



## **Supplementary Information**

**DENISON MUNICIPAL UTILITIES**  
**ELECTRIC UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2012 and 2011**

**Schedule 1**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in Service, at cost	\$ 20,202,296	\$ 19,205,508
Less: Accumulated depreciation	11,401,799	10,884,515
Net Electric Utility Plant	<u>\$ 8,800,497</u>	<u>\$ 8,320,993</u>
<b>OTHER ASSETS</b>		
Note receivable-Joint Treatment Utility	\$ 375,000	\$ 500,000
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 73,211	\$ 70,611
Unrestricted		
Cash	2,056,832	1,299,368
Deposits and investments	3,184,563	3,587,188
Accounts receivable	(53,417)	474,976
Unbilled usage	724,296	503,361
Due from other funds	5,437	5,193
Interest receivable	14,144	17,549
Grant funds receivable	39,401	0
Inventory	488,333	513,164
Prepaid insurance	50,432	47,367
Note receivable-Joint Treatment Utility	125,000	125,000
Total Current Assets	<u>\$ 6,708,232</u>	<u>\$ 6,643,777</u>
Total Assets	<u><u>\$ 15,883,729</u></u>	<u><u>\$ 15,464,770</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 8,800,497	\$ 8,320,993
Restricted net assets	3,726	321
Unrestricted net assets	5,632,455	6,007,707
Total Net Assets	<u>\$ 14,436,678</u>	<u>\$ 14,329,021</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,105,871	\$ 835,289
Due to other funds	22,470	27,804
Accrued vacation and sick leave	199,595	185,104
Other accrued liabilities	49,630	17,262
Payable from restricted assets		
Consumers' deposits	69,485	70,290
Total Current Liabilities	<u>\$ 1,447,051</u>	<u>\$ 1,135,749</u>
Total Liabilities and Net Assets	<u><u>\$ 15,883,729</u></u>	<u><u>\$ 15,464,770</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**ELECTRIC UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NETS ASSETS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 1**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sales to consumers	\$ 8,963,736	\$ 9,025,296
Other operating revenues	36,085	35,179
Total operating revenues	<u>\$ 8,999,821</u>	<u>\$ 9,060,475</u>
OPERATING EXPENSES		
Cost of Power	\$ 7,291,856	\$ 7,233,038
Administrative & general	321,145	341,673
Transportation	45,492	39,322
Property, liability, work comp insurance	59,852	54,777
Payroll tax expense	113,909	98,048
Employee insurance	165,363	145,274
Repair & maintenance	83,166	86,274
Transmission & distribution	522,013	452,409
Consumer accounting & collection	100,435	99,655
Total operating expenses excluding depreciation	<u>\$ 8,703,231</u>	<u>\$ 8,550,470</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 296,590	\$ 510,005
DEPRECIATION	<u>518,054</u>	<u>496,003</u>
OPERATING INCOME	<u>\$ (221,464)</u>	<u>\$ 14,002</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 309,656	\$ 226,145
Hazard Mitigation Grant	39,401	145,144
Interest income	46,678	63,962
Payment in lieu of taxes	(66,614)	0
Total nonoperating revenues (expenses)	<u>\$ 329,121</u>	<u>\$ 435,251</u>
NET INCOME (LOSS)	\$ 107,657	\$ 449,253
NET ASSETS, BEGINNING OF YEAR	<u>14,329,021</u>	<u>13,879,768</u>
NET ASSETS, END OF YEAR	<u><u>\$ 14,436,678</u></u>	<u><u>\$ 14,329,021</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES  
ELECTRIC UTILITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
Years Ended June 30, 2012 and 2011**

**Schedule 1**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 107,657	\$ 449,253
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	518,054	496,003
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(2,600)	5,295
(Increase) decrease in trade receivables	528,393	6,671
(Increase) decrease in unbilled usage	(220,935)	(11,308)
(Increase) decrease in grant funds receivable	(39,401)	0
(Increase) decrease in inventories	24,831	(41,480)
(Increase) decrease in prepaid expenses	(3,065)	(3,483)
(Increase) decrease in other current assets	3,161	3,948
Increase (decrease) in accounts payable and accrued liabilities	312,107	31,408
Increase (decrease) in customer deposits	(805)	(3,910)
Net cash provided by (used in) operating activities	\$ <u>1,227,397</u>	\$ <u>932,397</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 3,286,939	\$ 3,268,040
Purchase of investment securities	(2,884,314)	(3,400,842)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(997,558)	(475,742)
Net cash provided by (used in) investing activities	\$ <u>(469,933)</u>	\$ <u>(483,544)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ <u>0</u>	\$ <u>0</u>
Net cash provided by (used in) financing activities	\$ <u>0</u>	\$ <u>0</u>
Net increase (decrease) in cash and cash equivalents	\$ 757,464	\$ 448,853
Cash and cash equivalents:		
Beginning	1,299,368	850,515
Ending	\$ <u><u>2,056,832</u></u>	\$ <u><u>1,299,368</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**ELECTRIC UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2012**

**Schedule 2**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 8,963,736	9,390,300	(426,564)
Other operating revenues	36,085	34,000	2,085
Total operating revenues	<u>\$ 8,999,821</u>	<u>9,424,300</u>	<u>(424,479)</u>
OPERATING EXPENSES			
Cost of Power	\$ 7,291,856	7,350,000	58,144
Administrative & general	321,145	302,100	(19,045)
Transportation	45,492	40,000	(5,492)
Property, liability, work comp insurance	59,852	59,600	(252)
Payroll tax expense	113,909	108,000	(5,909)
Employee insurance	165,363	150,000	(15,363)
Repair & maintenance	83,166	83,100	(66)
Transmission & distribution	522,013	450,000	(72,013)
Consumer accounting & collection	100,435	86,500	(13,935)
Total operating expenses excluding depreciation	<u>\$ 8,703,231</u>	<u>8,629,300</u>	<u>(73,931)</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 296,590	795,000	(498,410)
DEPRECIATION	<u>518,054</u>	<u>498,500</u>	<u>(19,554)</u>
OPERATING INCOME	<u>\$ (221,464)</u>	<u>296,500</u>	<u>(517,964)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 309,656	300,300	9,356
Hazard Mitigation Grant	39,401	25,000	14,401
Interest income	46,678	40,000	6,678
Payment in lieu of taxes	(66,614)	(67,000)	386
Total nonoperating revenues (expenses)	<u>\$ 329,121</u>	<u>298,300</u>	<u>30,821</u>
NET INCOME (LOSS)	\$ 107,657	594,800	<u>(487,143)</u>
NET ASSETS, BEGINNING OF YEAR	<u>14,329,021</u>	<u>10,711,730</u>	
NET ASSETS, END OF YEAR	<u><u>\$ 14,436,678</u></u>	<u><u>11,306,530</u></u>	

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2012 and 2011**

**Schedule 3**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>WATER UTILITY PLANT</b>		
Plant in Service, at cost	\$ 21,117,164	\$ 19,329,565
Less: Accumulated depreciation	9,304,611	8,700,924
Net Water Utility Plant	\$ <u>11,812,553</u>	\$ <u>10,628,641</u>
<b>OTHER ASSETS</b>		
Revenue bond reserve	\$ 726,419	\$ 793,279
Loan origination fee	22,383	24,870
Total Other Assets	\$ <u>748,802</u>	\$ <u>818,149</u>
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 726,330	\$ 685,990
Deposits and investments	740,124	2,372,567
Accounts receivable	35,790	180,463
Unbilled usage	215,058	121,413
Due from other funds	10,259	8,774
Interest receivable	2,919	1,212
Inventory	98,138	105,974
Prepaid insurance	46,572	46,268
Total Current Assets	\$ <u>1,875,190</u>	\$ <u>3,522,661</u>
Total Assets	\$ <u><u>14,436,545</u></u>	\$ <u><u>14,969,451</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 9,005,936	\$ 7,196,320
Restricted nets assets	712,274	775,746
Unrestricted net assets	1,679,769	3,096,948
Total Net Assets	\$ <u>11,397,979</u>	\$ <u>11,069,014</u>
LONG-TERM DEBT - Net of current maturities	\$ <u>2,551,000</u>	\$ <u>2,934,191</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 77,315	\$ 325,058
Due to other funds	3,318	3,283
Accrued vacation and sick leave	82,056	85,012
Other accrued liabilities	32,732	12,360
Payable from restricted assets		
Current maturities of long-term debt	278,000	523,000
Interest payable	14,145	17,533
Total Current Liabilities	\$ <u>487,566</u>	\$ <u>966,246</u>
Total Liabilities and Net Assets	\$ <u><u>14,436,545</u></u>	\$ <u><u>14,969,451</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 3**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sales to consumers	\$ 2,363,119	\$ 2,311,362
OPERATING EXPENSES		
Administrative & general	\$ 128,283	\$ 142,291
Transportation	13,888	14,135
Property, liability, work comp insurance	58,278	55,484
Payroll tax expense	76,618	72,326
Employee insurance	104,511	97,295
Power & pumping	239,209	198,703
Transmission & distribution	212,507	201,829
Purification	574,736	470,154
Consumer accounting & collection	78,911	76,380
Total operating expenses excluding depreciation	\$ 1,486,941	\$ 1,328,597
OPERATING INCOME BEFORE DEPRECIATION	\$ 876,178	\$ 982,765
DEPRECIATION	<u>603,687</u>	<u>563,683</u>
OPERATING INCOME	\$ 272,491	\$ 419,082
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 144,295	\$ 79,090
Interest income	11,502	33,604
Interest expense	(99,323)	(115,595)
Total nonoperating revenues (expenses)	\$ 56,474	\$ (2,901)
NET INCOME (LOSS)	\$ 328,965	\$ 416,181
NET ASSETS, BEGINNING OF YEAR	<u>11,069,014</u>	<u>10,652,833</u>
NET ASSETS, END OF YEAR	<u>\$ 11,397,979</u>	<u>\$ 11,069,014</u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 3**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 328,965	\$ 416,181
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	603,687	563,683
Amortization of origination fees	2,487	2,487
ARRA loan forgiven	(107,000)	0
Changes in assets and liabilities		
(Increase) decrease in trade receivables	144,673	8,915
(Increase) decrease in unbilled usage	(93,645)	(8,930)
(Increase) decrease in inventories	7,836	278,568
(Increase) decrease in prepaid expenses	(304)	(7,700)
(Increase) decrease in other current assets	(3,192)	1,815
Increase (decrease) in accounts payable and accrued liabilities	<u>(233,680)</u>	<u>264,087</u>
Net cash provided by (used in) operating activities	<u>\$ 649,827</u>	<u>\$ 1,519,106</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 3,492,309	\$ 3,207,978
Purchase of investment securities	(1,793,006)	(2,424,417)
Purchase of property and equipment	<u>(1,787,599)</u>	<u>(1,757,395)</u>
Net cash provided by (used in) investing activities	<u>\$ (88,296)</u>	<u>\$ (973,834)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowing	\$ 809	\$ 51,223
Principal payments on long-term borrowing	<u>(522,000)</u>	<u>(463,000)</u>
Net cash provided by (used in) financing activities	<u>\$ (521,191)</u>	<u>\$ (411,777)</u>
 Net increase (decrease) in cash and cash equivalents	 \$ 40,340	 \$ 133,495
Cash and cash equivalents:		
Beginning	685,990	552,495
Ending	<u><u>\$ 726,330</u></u>	<u><u>\$ 685,990</u></u>

See accompanying independent auditors' report.



**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2012**

**Schedule 4**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,363,119	2,356,500	6,619
OPERATING EXPENSES			
Administrative & general	\$ 128,283	143,500	15,217
Transportation	13,888	14,000	112
Property, liability, work comp insurance	58,278	56,600	(1,678)
Payroll tax expense	76,618	77,000	382
Employee insurance	104,511	110,000	5,489
Power & pumping	239,209	253,500	14,291
Transmission & distribution	212,507	210,500	(2,007)
Purification	574,736	502,500	(72,236)
Consumer accounting & collection	78,911	71,000	(7,911)
Total operating expenses excluding depreciation	\$ 1,486,941	1,438,600	(48,341)
OPERATING INCOME BEFORE DEPRECIATION	\$ 876,178	917,900	(41,722)
DEPRECIATION	603,687	562,000	(41,687)
OPERATING INCOME	\$ 272,491	355,900	(83,409)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 144,295	40,000	104,295
Interest income	11,502	12,000	(498)
Interest expense	(99,323)	(101,000)	1,677
Total nonoperating revenues (expenses)	\$ 56,474	(49,000)	105,474
NET INCOME (LOSS)	\$ 328,965	306,900	22,065
NET ASSETS, BEGINNING OF YEAR	11,069,014	8,203,526	
NET ASSETS, END OF YEAR	\$ 11,397,979	8,510,426	

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2012 and 2011**

**Schedule 5**

ASSETS	<u>2012</u>	<u>2011</u>
<b>SEWER UTILITY PLANT</b>		
Plant in Service, at cost	\$ 6,309,319	\$ 5,171,535
Less: Accumulated depreciation	2,902,844	2,807,654
Net Sewer Utility Plant	<u>\$ 3,406,475</u>	<u>\$ 2,363,881</u>
 <b>CURRENT ASSETS</b>		
Unrestricted		
Cash	62,133	71,683
Deposits and investments	416,695	1,025,275
Accounts receivable	43,043	118,061
Unbilled usage	99,548	79,616
Due from other funds	13,739	20,411
Interest receivable	0	1,605
Prepaid insurance	11,450	10,750
Total Current Assets	<u>\$ 646,608</u>	<u>\$ 1,327,401</u>
 Total Assets	<u><u>\$ 4,053,083</u></u>	<u><u>\$ 3,691,282</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 3,406,475	\$ 2,363,881
Restricted net assets	0	0
Unrestricted net assets	420,653	1,240,152
Total Net Assets	<u>\$ 3,827,128</u>	<u>\$ 3,604,033</u>
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 141,412	\$ 16,975
Due to other funds	3,447	3,171
Accrued vacation and sick leave	65,010	61,945
Other accrued liabilities	16,086	5,158
Total Current Liabilities	<u>\$ 225,955</u>	<u>\$ 87,249</u>
 Total Liabilities and Net Assets	<u><u>\$ 4,053,083</u></u>	<u><u>\$ 3,691,282</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 5**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>1,207,278</u>	\$ <u>1,148,843</u>
OPERATING EXPENSES		
Administrative & general	\$ 116,027	\$ 62,596
Transportation	14,014	10,991
Property, liability, work comp insurance	13,916	12,507
Payroll tax expense	38,750	28,812
Employee insurance	43,548	39,447
Joint treatment processing	266,542	286,428
Repair & maintenance	145,176	117,389
Power & pumping	22,542	14,763
Plant & main maintenance	172,147	142,045
Consumer accounting & collection	62,804	51,296
Total operating expenses excluding depreciation	\$ <u>895,466</u>	\$ <u>766,274</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 311,812	\$ 382,569
DEPRECIATION	<u>95,191</u>	<u>85,079</u>
OPERATING INCOME	\$ <u>216,621</u>	\$ <u>297,490</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 3,988	\$ 14,789
Loss on the sale of property and equipment	0	(624)
Interest income	2,486	11,044
Total nonoperating revenues (expenses)	\$ <u>6,474</u>	\$ <u>25,209</u>
NET INCOME (LOSS)	\$ 223,095	\$ 322,699
NET ASSETS, BEGINNING OF YEAR	<u>3,604,033</u>	<u>3,281,334</u>
NET ASSETS, END OF YEAR	\$ <u><u>3,827,128</u></u>	\$ <u><u>3,604,033</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 5**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 223,095	\$ 322,699
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	95,191	85,079
Loss on the sale of property and equipment	0	624
Changes in assets and liabilities		
(Increase) decrease in trade receivables	75,018	2,703
(Increase) decrease in unbilled usage	(19,932)	(5,405)
(Increase) decrease in prepaid expenses	(700)	(755)
(Increase) decrease in other current assets	8,277	(6,965)
Increase (decrease) in accounts payable and accrued liabilities	<u>138,706</u>	<u>(24,209)</u>
Net cash provided by (used in) operating activities	\$ <u>519,655</u>	\$ <u>373,771</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 852,231	\$ 849,649
Purchase of investment securities	(243,651)	(861,049)
Purchase of property and equipment	(1,137,785)	(457,382)
Proceeds from the sale of property and equipment	<u>0</u>	<u>976</u>
Net cash provided by (used in) investing activities	\$ <u>(529,205)</u>	\$ <u>(467,806)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ <u>0</u>	\$ <u>0</u>
Net cash provided by (used in) financing activities	\$ <u>0</u>	\$ <u>0</u>
Net increase (decrease) in cash and cash equivalents	\$ (9,550)	\$ (94,035)
Cash and cash equivalents:		
Beginning	71,683	165,718
Ending	<u>\$ 62,133</u>	<u>\$ 71,683</u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2012**

**Schedule 6**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 1,207,278	1,162,000	45,278
OPERATING EXPENSES			
Administrative & general	\$ 116,027	105,500	(10,527)
Transportation	14,014	15,000	986
Property, liability, work comp insurance	13,916	13,500	(416)
Payroll tax expense	38,750	37,600	(1,150)
Employee insurance	43,548	42,500	(1,048)
Joint treatment processing	266,542	265,000	(1,542)
Repair & maintenance	145,176	127,000	(18,176)
Power & pumping	22,542	16,500	(6,042)
Plant & main maintenance	172,147	160,000	(12,147)
Consumer accounting & collection	62,804	51,000	(11,804)
Total operating expenses excluding depreciation	\$ 895,466	833,600	(61,866)
OPERATING INCOME BEFORE DEPRECIATION	\$ 311,812	328,400	(16,588)
DEPRECIATION	95,191	93,500	(1,691)
OPERATING INCOME	\$ 216,621	234,900	(18,279)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 3,988	5,400	(1,412)
Loss on the sale of property and equipment	0	0	0
Interest income	2,486	3,200	(714)
Total nonoperating revenues (expenses)	\$ 6,474	8,600	(2,126)
NET INCOME (LOSS)	\$ 223,095	243,500	(20,405)
NET ASSETS, BEGINNING OF YEAR	3,604,033	2,528,400	
NET ASSETS, END OF YEAR	\$ 3,827,128	2,771,900	

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT UTILITY  
COMPARATIVE STATEMENT OF NET ASSETS  
June 30, 2012 and 2011**

**Schedule 7**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>JOINT TREATMENT PLANT</b>		
Plant in Service, at cost	\$ 9,556,807	\$ 8,846,249
Less: Accumulated depreciation	3,516,707	3,332,149
Net Joint Treatment Plant	<u>\$ 6,040,100</u>	<u>\$ 5,514,100</u>
<b>OTHER ASSETS</b>		
Unrestricted		
Equipment replacement investment	\$ 1,005,512	\$ 851,946
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 503,701	\$ 784,656
Accounts receivable	0	135,767
Unbilled usage	140,025	0
Due from other funds	1,017	824
Interest receivable	0	0
Prepaid insurance	20,221	18,988
Total Current Assets	<u>\$ 664,964</u>	<u>\$ 940,235</u>
Total Assets	<u><u>\$ 7,710,576</u></u>	<u><u>\$ 7,306,281</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 6,040,100	\$ 4,889,100
Restricted net assets	0	0
Unrestricted net assets	1,121,891	1,612,135
Total Net Assets	<u>\$ 7,161,991</u>	<u>\$ 6,501,235</u>
LONG-TERM DEBT - Net of current maturities	<u>\$ 375,000</u>	<u>\$ 500,000</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 24,508	\$ 164,230
Due to other funds	1,217	944
Other accrued liabilities	12,860	2,372
Current maturities of long-term debt	125,000	125,000
Interest payable	10,000	12,500
Total Current Liabilities	<u>\$ 173,585</u>	<u>\$ 305,046</u>
Total Liabilities and Net Assets	<u><u>\$ 7,710,576</u></u>	<u><u>\$ 7,306,281</u></u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 7**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sales to consumers	\$ 1,816,842	\$ 1,768,147
OPERATING EXPENSES		
Administrative & general	\$ 100,065	\$ 129,024
Transportation	12,031	10,761
Property, liability, work comp insurance	24,151	21,971
Payroll tax expense	37,812	36,317
Employee insurance	48,957	54,100
Waste water processing	744,944	635,944
Total operating expenses excluding depreciation	\$ <u>967,960</u>	\$ <u>888,117</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 848,882	\$ 880,030
DEPRECIATION	<u>184,558</u>	<u>182,225</u>
OPERATING INCOME	\$ <u>664,324</u>	\$ <u>697,805</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 14,187	\$ 17,984
Interest income	4,745	5,511
Interest expense	(22,500)	(27,500)
Total nonoperating revenues (expenses)	\$ <u>(3,568)</u>	\$ <u>(4,005)</u>
NET INCOME (LOSS)	\$ 660,756	\$ 693,800
NET ASSETS, BEGINNING OF YEAR	<u>6,501,235</u>	<u>5,807,435</u>
NET ASSETS, END OF YEAR	<u>\$ 7,161,991</u>	<u>\$ 6,501,235</u>

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT UTILITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2012 and 2011**

**Schedule 7**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 660,756	\$ 693,800
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	184,558	182,225
Changes in assets and liabilities		
(Increase) decrease in trade receivables	135,767	(20,618)
(Increase) decrease in unbilled usage	(140,025)	0
(Increase) decrease in prepaid expenses	(1,233)	(1,357)
(Increase) decrease in other current assets	(193)	(109)
Increase (decrease) in accounts payable and accrued liabilities	<u>(131,461)</u>	<u>148,304</u>
Net cash provided by (used in) operating activities	\$ <u>708,169</u>	\$ <u>1,002,245</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(153,566)	(154,159)
Purchase of property and equipment	<u>(710,558)</u>	<u>(162,598)</u>
Net cash provided by (used in) investing activities	\$ <u>(864,124)</u>	\$ <u>(316,757)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	<u>(125,000)</u>	<u>(125,000)</u>
Net cash provided by (used in) financing activities	\$ <u>(125,000)</u>	\$ <u>(125,000)</u>
Net increase (decrease) in cash and cash equivalents	\$ (280,955)	\$ 560,488
Cash and cash equivalents:		
Beginning	784,656	224,168
Ending	<u><u>\$ 503,701</u></u>	<u><u>\$ 784,656</u></u>

See accompanying independent auditors' report.



**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2012**

**Schedule 8**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 1,816,842	1,595,000	221,842
OPERATING EXPENSES			
Administrative & general	\$ 100,065	106,000	5,935
Transportation	12,031	12,500	469
Property, liability, work comp insurance	24,151	24,000	(151)
Payroll tax expense	37,812	35,600	(2,212)
Employee insurance	48,957	49,000	43
Waste water processing	744,944	682,000	(62,944)
Total operating expenses			
excluding depreciation	\$ 967,960	909,100	(58,860)
OPERATING INCOME BEFORE DEPRECIATION	\$ 848,882	685,900	162,982
DEPRECIATION	184,558	185,000	442
OPERATING INCOME	\$ 664,324	500,900	163,424
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 14,187	16,000	(1,813)
Interest income	4,745	4,500	245
Interest expense	(22,500)	(22,500)	-
Total nonoperating revenues (expenses)	\$ (3,568)	(2,000)	(1,568)
NET INCOME (LOSS)	\$ 660,756	498,900	161,856
NET ASSETS, BEGINNING OF YEAR	6,501,235	299,500	
NET ASSETS, END OF YEAR	\$ 7,161,991	798,400	

See accompanying independent auditors' report.

# **MAHONEY & GOTTO COMPANY**

***Certified Public Accountants***

**201 South 7<sup>th</sup> Street  
Denison, IA 51442**

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**Independent Auditors' Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Trustees of the  
Denison Municipal Utilities:

We have audited the accompanying financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated September 14, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Denison Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Denison Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Denison Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged by governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-12 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Denison Municipal Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Denison Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Denison Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Denison Municipal Utilities and other parties to whom Denison Municipal Utilities may report, including federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Denison Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Mahoney & Gotto Company*

MAHONEY & GOTTO COMPANY  
Certified Public Accountants

September 14, 2012  
Denison, Iowa

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings**  
**Year Ended June 30, 2012**

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) The audit did not disclose any non-compliance which is material to the financial statements.
- (c) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. The placing of orders and approving vouchers for payment should have adequate separation.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities has made reasonable efforts and improvements to segregate these duties. However, the Utilities should review its control procedures to obtain the maximum internal controls possible under the circumstances. In addition, supervisory review of financial transactions and reports also remains extremely important when incompatible responsibilities cannot be segregated.

Response – We are aware of the need to segregate incompatible duties. We will continue to update and follow control procedures as they have been established.

Conclusion – Response accepted.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings**  
**Year Ended June 30, 2012**

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-12 Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget, as amended, during the fiscal year.
- III-B-12 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-12 Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- III-D-12 Business Transactions – Business transactions between the Utilities and officials are immaterial and meet the guidelines of the Code of Iowa.
- III-E-12 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-12 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utilities proceedings were all properly and timely published. Also, the Utilities did publish annual gross salaries for 2011 as in accordance with an Attorney General's opinion dated April 12, 1978.
- III-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy were noted.
- III-H-12 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.